Proceedings of the Workshop on
Zambia's Agricultural Comparative Advantage and the COMESA Free Trade Area

(16-17 August, 2000)

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ARD-RAISE

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by

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LIST OF ACRONYMS

ACP-EU	African, Caribbean, and Pacific States in partnership with the European Union.
ASIP	Agriculture Sector Investment Program
CARPA	Center for Agricultural Research and Policy Analysis
CEA	Comparative Economic Advantage
COMESA	Common Market for Eastern and Southern African Countries
DRC	Domestic Resource Costs
EPZ	Export Processing Zones
FTA	Free Trade Area
ICBT	Informal/Cross-Border Trade
NGO	Nongovernmental Organization
NTB	Nontariff Barriers
NTE	Nontraditional Exports
PAM	Policy Analysis Matrix
RIF	Rural Investment Fund
SADC	South African Development Community
SAFTO	South Africa Foreign Trade Organization
USAID	United States Agency for International Development
VAT	Value Added Tax
WTO	World Trade Organization
ZEGA	Zambia Export Growers Association
ZNFU	Zambia National Farmers Union

CHAPTER 1.
CONTEXT

Most countries in Southern Africa have gone through the process of liberalization under structural adjustment programs. The attendant macroeconomic changes include the liberalization of the agricultural sector. To the extent that liberalization measures for the agricultural sector are expected to result in crop diversification, there is the possibility that countries in the region would diversify into similar commodities. Another important consideration is a new economic and political dispensation in Southern Africa, particularly following the major political change in South Africa. This has opened the region to a number of bilateral and regional initiatives toward the promotion of closer economic integration and cooperation in the region.

Against this background, USAID missions in the Southern African region, in collaboration with the University of Swaziland's Center for Agricultural Research and Policy Analysis (CARPA) and national institutions and researchers in selected countries of the region, facilitated the analysis of the impact of evolving trade and agricultural policies on agricultural productivity and food security in the region. The aim was to generate policy-relevant data that would facilitate appropriate policy responses in the fields of regional trade, agricultural productivity and food security. The Institute of Economic and Social Research at the University of Zambia was among the institutions in the region that carried out the studies and completed its input in January 1998. USAID has just published the report, *Comparative Economic Advantage of Alternative Agricultural Production Activities in Zambia.*[1] The primary objective of the workshop was to present the findings of that initiative and to link its findings to the more current debate in the Southern African region today, namely the Common Market for Eastern and Southern Africa (COMESA) Free Trade Area (FTA).

In the overall context of the Regional Agricultural Trade and Changing Comparative Advantage in Southern Africa project, the regional initiative that facilitated execution of the Zambian study aimed to realize the following objectives:

- evaluating the Comparative Economic Advantage (CEA) of alternative agricultural production activities in the various agro-ecological zones in Zambia and under the different technology levels and land tenure systems in Southern Africa;
- analyzing the potential impacts of removing existing price and policy distortions in the structure of incentives on the economic efficiency of alternative productive uses of the region's resources;
- identifying policy, technology, and institutional interventions to enhance economic efficiency and direct agricultural resources to their most productive uses; and
- building country data components needed for conducting the regional analysis of CEA and trade in agricultural commodities for Southern Africa.

[1] The Report is co-authored by Oliver S. Saasa, Dennis Chiwele, Faustin Mwape, and John C. Keyser and is released by USAID as Technical Paper No. 104, SD Publication Series, Office of Sustainable Development, Bureau for Africa), December, 1999.

In the Zambian context, the regional initiative was especially relevant given the broad consensus that the country's agriculture has not lived up to its full potential and that there is considerable room for growth.

For which crops and livestock products does Zambia enjoy a comparative advantage? Which farming activities are most, and least, profitable and how do different enterprises compare with regard to labor requirements, production costs and other characteristics of private and social importance? The study was prepared to help answer these and other related questions and to provide agricultural administrators, policy makers, farmers, agribusiness firms, donors and others with an improved basis upon which to judge current agricultural sector performance and to anticipate areas of potential growth.

To achieve the main aims of the study, the quantitative analysis was based on a set of indicative crop budgets to reflect actual farm conditions to the best extent possible. Twenty-five distinct crop and livestock activities were covered by these budgets, including several levels of small-scale, emergent and commercial management in various regions of the country. Drawing on these budgets, the Policy Analysis Matrix (PAM) was used to analyze the social efficiency of agricultural production as well as the effects of government policy. Tradeoffs were assumed to be involved in all production decisions and several financial measurements of farm profits and production costs were provided to help evaluate each activity.

Ultimately, the analysis suggests which farm enterprises make the best use of Zambia's domestic resources from a variety of perspectives. The study has identified which types of farmers are best at certain activities and which regions are the most efficient in the production of different commodities. By analyzing several levels of farm management, an indication is also provided of areas that may realize the greatest potential benefits from targeted programs aimed at improving production. This information is important for the design of effective agricultural policies, farm strategies and research programs.

In order to establish the agricultural comparative advantage for Zambia within the country's agro-ecological framework, this report has attempted to:

- analyze the degree to which the existing macroeconomic policies have an effect on the economic efficiency of alternative productive uses of the country's resources;
- identify the different types of agro-ecological zones of Zambia and use these as the main criteria/focus of the study. In this respect, the comparative Domestic Resource Costs (DRC) data based on the country's agro-ecological zonation is used in the analysis;
- analyze information on crops and livestock production systems. To the degree that an agro-ecological approach is used, an attempt is made to analyze the influence of the physical environment on farming systems in different ecological regions; and

- attempt to establish the relative comparative advantage of a number of major agricultural commodities across agro-ecological zones in Zambia using the 1995/96 agricultural season as the base year. These include grains, oilseed, cash crops, nontraditional exports (NTEs), and livestock.

CHAPTER 2.
PROCESS OF THE WORKSHOP

2.1 ORGANIZATION

The workshop was held from 16-17 August 2000 in Lusaka at the Pamodzi Hotel. It was organized by the Institute of Economic and Social Research under the facilitation of Professor Oliver S. Saasa, the Director of the Institute and principal author of the report. He was assisted by local resource persons who coauthored the report, namely, Dr. Dennis Chiwele of RuralNet Consultants and Dr. Faustin Mwape of the School of Agricultural Sciences at the University of Zambia. The workshop program (Appendix 1) was discussed by the three authors in consultation with some of the invited participants.

In addition to the resource persons and facilitators, the workshop attracted 38 participants (see Appendix 3) drawn from key institutions under the following categories:

- *government ministries* (Ministry of Agriculture, Food and Fisheries; Ministry of Finance and Economic Development; Ministry of Commerce, Trade and Industry);
- *donor agencies/embassies* (USAID, Food and Agricultural Organization, Embassy of Sweden, COMESA);
- *nongovernmental organizations (NGOs)* (Program Against Malnutrition);
- *private sector* (Agricultural Consultative Forum, Zambia Enterprise Network, Zambia National Farmers Union (ZNFU), Zambia Export Growers Association (ZEGA), Golden Valley Research Station, Zambia Seed Company);
- *media* (Times of Zambia, Zambia Information Services, the Post Newspapers, Zambia News Agency, Information Dispatch, Africa Today Magazine, Financial Mail, Daily Mail); and
- *academic institutions* (University of Zambia, Institute of Economic and Social Research).

2.2 WORKSHOP PROCESSES

In general, the idea during the workshop was to blend the main findings of the comparative advantage study with the more current issues in agricultural production and trade in Southern Africa, and in particular how these directly impact on the Zambian agricultural producers and exporters. In this regard, the workshop consisted of two modes of discussion, which are described below.

2.2.1 Plenary Presentations

The first plenary session was a keynote address by the Secretary General of COMESA, Mr. Mwencha. The address focused on the theme: *COMESA's FTA: the Rationale and Effect on Agricultural Production and Trade*. The second plenary session was on the launch of the report:

Comparative Agricultural Advantage of Alternative Agricultural Production Activities in Zambia. Ms. Kitiabi, Regional Trade Advisor for USAID/REDSO/ESA in Nairobi was the forst of four presenters. She gave an overview of the regional dimension of the comparative advantage study. This was followed by a presentation by Professor Saasa that focused on the overview of the study (the process, resource personnel, and rationale). This was followed by Dr. Chiwele's presentation on Zambia's agro-ecological zones, farming systems, and production trends. The presentation provided the context of the study. This was then followed by Dr. Mwape's presentation, which highlighted the main results of the study, particularly with respect to Zambia's agricultural comparative advantage in the agricultural commodities studied. Finally, Professor Saasa made an overview of the study's conclusions and implications for Zambia's impeding COMESA FTA regime. At the end of the presentations, a one-hour open discussion of the study results was facilitated. Appendix 2 summarizes the contents of the presentations.

2.2.2 Panel Discussions

The workshop had two panel discussions that focused on thematic issues of immediate interest to Zambia and participants. The first panel discussion was preceded by a presentation of a commissioned paper by the Executive Director of the ZNFU, Mr. Zyambo, on the topic *Production and Export of Nontraditional agricultural commodities in Zambia: The Challenges and Opportunities under the COMESA Free Trade Area*. On the basis of the issues raised by Mr. Zyambo, four panelists were given time for comments. These were Ms. Ireen Tembo, Director of Trade for the Ministry of Commerce, Trade, and Industry; Mr. Chanthunya, Director of Trade for COMESA; Mr. Mukutu, former Permanent Secretary of Ministry of Agriculture and currently Chairman of the Agriculture Consultative Forum; and Mr. Mbewe, Managing Director of ZEGA. The presentations of the panelists were followed by a plenary discussion of the issues raised.

The following day, Professor Saasa, the workshop facilitator, summarized the first day's deliberation. A panel discussion followed *on Policy and Institutional Preparedness of Zambia for Enhanced Agricultural Production and Trade*. The two panelists were Ms. Ireen Tembo, Director of Trade for the Ministry of Commerce, Trade, and Industry and Mr. Banda, Director of Planning and Cooperatives Development at the Ministry of Agriculture, Food, and Fisheries. This was followed by an open discussion.

Finally, the closing session consisted of brief statements from Ms. Tembo, representing the permanent Secretary of Ministry of Commerce, Trade, and Industry; Mr. Mukutu of the Agricultural Consultative Forum; Ms. Kitiabi of USAID/REDSO in Nairobi; and Ms. Helen Gunther, Officer in Charge of Agriculture at USAID-Zambia.

CHAPTER 3.
OFFICIAL OPENING SESSION

3.1 GOVERNMENT OPENING SPEECH

The Workshop was officially opened by the Permanent Secretary of the Ministry of Agriculture, Food and Fisheries through a speech read on his behalf by Mr. A.K. Banda, Director of Planning and Cooperatives Development. First, the Permanent Secretary felt that although the theme of the report mainly focuses on Zambia, it was commendable that its theme took a regional dimension. In this regard, he took advantage of the presence of the COMESA Secretary General to reaffirm the Zambian government's preparedness to fully participate in the process of the renewed vision and strategy for the 21st century in the field of regional integration and cooperation.

Second, the Permanent Secretary noted that the Zambian agricultural sector has the potential to be the engine of growth for the economy since it is based on renewable resources, while mining, still strategic to the Zambian economy, is basically dependent on depleting mineral resources. He, nevertheless, recognized that the agricultural sector continues to face major challenges, including the fact that the upcoming COMESA FTA shall introduce structural and policy considerations for positioning the country in a better position to accommodate emerging opportunities. In this respect, the Permanent Secretary summarized, in the form of questions, the challenges facing the Agricultural Sector:

- What is Zambia's agricultural comparative advantage, *vis-à-vis* regional economies in relation to increased production, types of products, production costs and types of markets?
- Is the present policy regime in Zambia sufficiently equipped to take on the challenges of liberalized trade interaction and if not, what should be recommended as a way forward in the light of the COMESA FTA?
- Have we put in place a robust structural and institutional framework that is sufficiently well functioning to serve as a facilitative catalyst for enhanced private sector entry and viable involvement in increased agricultural production, processing and trade?

Third, the Permanent Secretary commended USAID for supporting and facilitating the analysis of the impact of evolving trade and agricultural policies on agricultural productivity and food security in selected countries of Southern Africa. He hoped that the recommendations from the study would contribute to the continuous evolution of appropriate policy responses in the fields of regional trade, agricultural productivity and food security.

Against this background, the Permanent Secretary maintained that a rational strategy to adopt as Zambia enters the COMESA FTA is one of targeting and strengthening small- and medium-scale farmers to enable them produce adequate staple food crops for domestic markets. At the same time, he recommended that measures should be implemented that would make commercial farmers compete effectively in the production of high-value export crops. He singled out, however, the cost of electricity in Zambia as a source of concern to Zambia's competitiveness.

Finally, the Permanent Secretary thanked USAID for both supporting the regional initiative as well as publishing the report. He further thanked the Institute of Economic and Social Research at the University of Zambia for undertaking the study.

3.2 KEYNOTE ADDRESS

A keynote address was presented by the COMESA Secretary General, Mr. E. Mwencha. He stated at the outset that what he had prepared was not a keynote speech *per se* but discussion notes that would allow for better interaction among participants. He began his presentation by describing the region and Zambia's position in it. He stated that the COMESA region has a population of 380 million people. With respect to factors that have continued to affect the region's agricultural production, he cited and discussed finance, electricity, transport, wages, tariffs (imported inputs), political stability, weather patterns, and the land tenure system. He also included in this regard the cost of AIDS to the productive sector in the region; and the low level of technological development and the extent to which this has compromised increased agricultural and industrial production. Among the constraints to agricultural production he included the seasonality of marketing, subsidies by the European Union and Japan, and sanitary and phytosanitary factors.

In conclusion, Mr. Mwencha argued that most of the factors that explain limited trade interaction in the region have less to do with tariffs and more with nontariff barriers (NTBs). Using the statistical tables that COMESA had generated, he demonstrated that even before the FTA is entered into, national tariffs in the COMESA region are already quite low. While dispelling the expressed fears of the Zambian market being swamped by incoming imports with the introduction of FTA's zero tariff, he demonstrated that, with improved production systems and aggressive marketing, Zambia could continue to enjoy its already existing comparative advantage in several agricultural products as revealed in the report being launched.

CHAPTER 4.
LAUNCH OF THE REPORT: PRESENTATION OF FINDINGS

Four presentations were made as part of the session earmarked for the launch of the report, *Comparative Economic Advantage of Alternative Agricultural Production Activities in Zambia*. These were followed by a discussion. The report launch deliberations are summarized below.

4.1 REGIONAL AND NATIONAL DIMENSIONS OF THE ZAMBIAN STUDY

Ms. Regina Kitiabi, the Regional Trade Advisor for USAID/REDSO/ESA, summarized the regional dimension against which the Zambian study was conducted. She listed the countries covered by the regional initiative and gave justifications for undertaking the study, which included:

- a low volume of intraregional recorded (official) trade.
- an increased volume of unrecorded trade, and
- discrepancies in the official statistics, leading to inaccurate policy decisions.

Furthermore, Ms. Kitiabi also informed the participants that, apart from the country-specific case studies, there has been a regional study on informal/cross-border trade (ICBT) among the regional states. Among the objectives of this component are to:

- provide an overall analysis of how the informal traders overcome the major constraints facing formal traders;
- provide estimates on the magnitude of unrecorded trade;
- give a comparative analysis of recorded and unrecorded trade;
- give an aggregate analysis of the costs and benefits of informal trade, showing who gains and who loses from trade liberalization;
- provide an overall assessment of the impact of ICBT on national food security; and
- recommend steps that should be taken to enhance trade between the survey countries and their neighbours.

From the study findings, the major determinants of the unofficial trade include infrastructure limitations, inappropriate policies (both trade and fiscal), and continued bureaucracy at borders. On the basis of these findings, Ms. Kitiabi reported that the thematic areas for follow-up analysis should include fiscal and institutional considerations, implications of liberalizing, import/export bans, and commodity specific studies.

Notwithstanding the achievements so far realized from these studies, Ms. Kitiabi informed participants that there is need for more in-depth policy analysis on, for example, why unofficial trade persists; loss/gains from zero tariffication, including issues of compensation; cross-border investments that tap comparative advantages of countries; identification of regional growth centers and linkages; analysis of factors constraining implementation of free trade agreements; and future dissemination and networks.

Ms. Kitiabi also informed participants that there are two studies conducted in East Africa and the Greater Horn of Africa focusing upon the cost of transport. The studies covered Kenya, Uganda, Tanzania, Djibouti, Eritrea, Ethiopia, Somalia and Sudan. The main aim is to analyze the financial and economic costs of transportation along different transport corridors and identify the direct and indirect costs involved and how they can be reduced. In particular, the studies determined the cost impact on agricultural production, trade and food security. The studies established that, *inter alia*, there is competition among the region's ports for transit cargo but that transport infrastructure operated by government departments and parastatals have been poorly funded. In addition, the studies identified cumbersome transit procedures, high clearing and forwarding charges, unofficial transit costs, general inefficiency and delays in transit facilitation, high port charges, and inadequate road safety. These also collectively contributed to high insurance premiums. It was further reported that bureaucracy has constrained efficiency in transport service delivery.

After Ms. Kitiabi's presentation, Professor Oliver Saasa gave an overview of the Zambian Study highlighting the process used, the institutional affiliation, and the main researchers that handled the work. He further attempted to show how the report, though somewhat dated, has reached conclusions that are still accurate for policy guidance in the field of agricultural production and trade. He stressed the link between the study's findings and Zambia's challenges and prospects at the dawn of the COMESA FTA.

4.2 AGRO-ECOLOGICAL ZONES, FARMING SYSTEMS, AND PRODUCTION TRENDS

Dr. Dennis Chiwele, one of the coauthors of the report, made the second presentation. He focused on Zambia's agro-ecological zones, farming systems, and production trends. He noted that a country's physical conditions provide the basis for agricultural production and that technology makes the utilization of the potential possible. He further observed that utilizing potential also depends on how production is organized within the sector at community and national levels and how it interacts with the wider economy. In this regard and specifically with respect to the country's physical conditions, the study revealed that Zambia's good comparative advantage in agricultural production is founded on a number of factors, namely:

- physical conditions that are supportive to the country's comparative advantage,
- vast land (about 48 million hectares) suitable for agricultural purposes,
- adequate rainfall for arable crop production in most parts of the country,
- vast irrigation potential,
- enough variability in soils and climate to support a wide range of agricultural activities, and
- the zone with the harshest conditions is also the smallest.

Consequently, calculations for the study show that Zambia enjoys a strong comparative advantage in the production of most agricultural commodities. Indeed, agricultural exports have been at the center of Zambia's huge success in the promotion of nontraditional (i.e., non-copper) exports.

Notwithstanding these findings, Dr. Chiwele informed the participants that there are still a number of physical limitations. Year-to-year rainfall variability with droughts (and floods) are becoming common in Zambia (as well as in most parts of the Southern African region) and these have adversely compromised the country's agricultural productivity. Decline in soil fertility in areas that have been historically most productive is also emerging as another problem. Therefore, the promotion of sustainable agriculture requires emphasis on soil conservation.

Technological impediments identified by the study, Dr. Chiwele reported, included few commercial farmers (about 1,500) with extensive mechanization and high-level technology and management. Presently, 600,000 small farmers in Zambia primarily depend on hand-hoe cultivation and they continue to face serious yield loss due to late planting. Because of this production system, they are unable to expand their cultivated areas. The low and declining use of modern inputs (due to poor supply and high inputs after removal of subsidies) has further continued to restrict their increased productivity. The poor human characteristics (low education and poor health especially given HIV/AIDS) are further preventing farmers to adapt to new techniques.

As a way forward, Dr. Chiwele argued that, for the country to be competitive in the COMESA FTA, a technological revolution in small-scale agriculture is essential as this would allow the country to take advantage of its land-surplus status. The study concluded that improved farmers' access to modern farm inputs, complimented by the adoption of low input use technologies, should be among the important considerations. For these recommendations to hold promise, the adoption of conservation farming is commendable. This, concluded Dr. Chiwele, would mainstream small-scale agriculture into the commercial sector.

4.3 AGRICULTURAL COMPARATIVE ADVANTAGE: PRESENTATION OF MAIN RESULTS

Dr. Faustin Mwape, another coauthor, presented the main results of the study. He also made a brief summary of the methodology and underlying assumptions used for the analysis of Zambia's agricultural comparative advantage.

Based the production models that were developed during field research and agreed upon at the regional level among the participating institutions, Dr. Mwape informed participants that PAMs were constructed. A total of 161 production models for 1995/1996 were estimated for the study covering 25 distinct crop/livestock activities and several variations by production level, location and parity basis. From the *social* perspective, Dr. Mwape reported that the results of the analysis are extremely good and show that Zambia enjoys a strong comparative advantage in the production of most agricultural commodities. The study further established that only 48 of the 161 production scenarios yielded a DRC greater than 0.50 and just 5 scores are greater than one.

The average DRC for all activities is just 0.41. These, participants were informed, are excellent results and imply a good potential for broad-based agricultural growth and development.

Importantly, however, Dr. Mwape noted that, from the *private* perspective, the results are much less encouraging where 55 of the production scenarios analyzed return less than ZK85,000/ha (equivalent to US$100 at the time of the study) and 15 scenarios actually lose money. Rather surprisingly, many of these unprofitable models cover the commercial sector and the data clearly show that these farmers do not always enjoy better profits than small-scale and emergent growers on a per hectare basis. One significant reason for this, the study established, is that many agricultural inputs, including chemicals, fuel, grain bags and machinery, are subject to heavy taxes and import duties. Capital and labor market distortions also detract from farm profitability. Although all sectors are affected by these transfers, Dr. Mwape reported that the greatest impact is felt by the commercial sector since these farmers make the most intensive use of taxable inputs, borrowed capital and hired labor.

Dr. Mwape further reported that, from the study results, it is also worth noting that, for all farm sectors, traditional grain and oilseed crops tend to be much less profitable than industrial cash crops such as cotton, paprika, sugar cane and tobacco. However, because these more lucrative activities also tend to be the most expensive, they are not always appropriate, especially for small-scale and emergent farmers with limited access to cash or other sources of crop finance. Success with cash crops also depends on farmers having fair and reliable access to market outlets which is certainly not always the case, especially in very remote locations.

The study covered a good number of agricultural commodities. Dr. Mwape highlighted only a few and referred the participants to the publication. The results of the following were presented.

Maize

DRC scores show that Zambia is an efficient producer of maize, where individual results range from just 0.06 to 0.97 and only four DRCs are greater than 0.60. Thus, Zambia is a remarkably efficient producer of maize when the alternative is to import grain from Argentina (average DRC for all sectors = 0.11). The country is significantly less efficient when the alternative is to import grain from Zimbabwe (average DRC = 0.42), and still marginally less efficient when it exports maize (average DRC = 0.47). In this respect, the findings suggest that Zambia may do best to focus on producing enough maize to meet domestic demand and not look to grow surpluses for export. Although all export DRCs are less than 1.0, indicating that Zambia is an efficient producer of export maize, many other agricultural activities make considerably better use of scarce domestic resources.

With regard to crop profitability, data generated by the study show that emergent farmers earn the best income with average yields followed by small-scale farmers. For the commercial sector, maize returns a very large net loss with average management and does not appear attractive.

Wheat

Data generated by the study shows that wheat makes extremely efficient use of Zambia's domestic resources where the estimated DRC is just 0.17 with average management and 0.10 at the potential level. Both of these results are excellent and indicate that Zambia enjoys a strong comparative advantage as a grower of import substitute wheat. The data also show that wheat is is very profitable and provides significantly more income than any other commercial grain crop.

Red and White Sorghum

Data show that white sorghum is a promising activity for small-scale and emergent farmers, especially at the potential levels of output. Although the normal level DRC of 0.70 for small-scale farmers is higher than for many other activities, the improved value of 0.35 at the potential level is excellent and shows that Zambia enjoys a strong comparative advantage in this drought resistant grain crop. Emergent farmers are significantly more efficient than small-scale growers at both levels of production where the average score of 0.46 is very good and the potential score of 0.25 ranks among the best compared with all other crop and livestock activities analyzed for the study.

Rice

The study established that rice makes extremely poor use of Zambia's domestic resources where the DRC scores compare unfavorably with every other activity analyzed at both levels of output. Indeed, at the average level, all DRC scores are above 1.0 and show that Zambia does not enjoy a comparative advantage in this activity. Although the scores do all improve to less than 1.0 with potential management, the DRCs are still very high (0.83 to 0.95) and most other activities make considerably better use of domestic agricultural resources. In most cases, rice production is slightly more efficient (more appropriately, less inefficient) in Kasama than Mongu due to differences in transportation costs. Rice is also subject to stronger net policy transfers (negative L) than white sorghum or finger millet at a range of US$22.90/ha to US$74.20/ha, due to more intensive use of taxed inputs and high processing costs. Taken together, these findings suggest a bleak future for rice production in Zambia. Private farm profits are also poor and it is unlikely that Zambia will be able to compete with imports from other countries.

Sunflower

Sunflower makes efficient use of Zambia's domestic resources but the private profits for farmers are very poor. Indeed, the DRC scores are all very good at a range of just 0.26 to 0.46 and show that Zambia enjoys a strong comparative advantage in this oilseed activity. At the average level, small-scale producers are somewhat more efficient than emergent farmers but the situation is reversed when potential yields are achieved where emergent production becomes the most efficient. Regionally, the differences between DRC scores are not significant where production in both Zones I and II appears to make similar use of domestic resources. From the financial perspective, however, the data show that farmer profits are very poor, especially with current average management. With potential management, the profits from sunflowers do improve significantly but are still less than for most other potential-level scenarios.

Groundnuts

Data show that groundnuts make very efficient use of Zambia's domestic resources and that the crop offers a potential for good producer profits. This is especially true at the potential level of output where the DRC, net profit, and return to variable cost indicators are all much better than with current average management. Importantly, however, production is also much more expensive at this level due to the use of certified seed and some fertilizers so that it may be more difficult for poor farmers to use the potential technologies compared with other possible farm activities. At the average level, net profits are better than those for sunflower and soybeans but are still very low and do not compare favorably with the returns from other cash crops including cotton and burley tobacco.

Cotton

The cotton results in the study are extremely favorable and indicate that cotton is a promising activity for Zambia. Indeed, despite low yields, cotton is one of the most efficient cash crops analyzed where the highest DRC is just 0.26 and the lowest score is an outstanding 0.09. Production is slightly more efficient when cotton is grown as an import substitute than as an export although the results for both possible trade scenarios are excellent and show that Zambia has much to gain from production of this crop. Another important advantage of cotton is that this crop provides farmers good financial returns. This is especially true at the potential levels of output where the profits for small-scale farmers improve by almost US$300/ha and variable costs only increase by US$33/ha. Similarly, emergent farmer profits improve by roughly US$330/ha (ZK280 thousand) and commercial farm profits improve by US$386/ha (ZK328 thousand) at the potential levels of output. These profits make cotton the second most profitable major crop activity for small-scale and emergent farmers at both levels of output behind only burley tobacco.

Burley and Virginia Tobacco

Most clearly, data in the study revealed that both burley and Virginia tobacco make very efficient use of Zambia's domestic resources where there are only small differences between the DRC scores for each sector and production level. Burley tobacco does appear slightly more efficient than the commercial Virginia tobacco crop but the differences are not significant and both activities offer a potential for excellent social returns. From the private perspective, burley tobacco is one of the most profitable small-scale and emergent activities analyzed. This is especially true at the potential levels of output where net profits are substantially higher than with current average management. Importantly, however, the data also show that burley tobacco is an expensive activity and so may not be feasible for most poor farmers except where there is access to credit facilities or some other form of input support. Importantly, for all farm sectors, net profits increase by much more at the potential level than variable costs so that improved management appears to make excellent financial sense for those that can afford this level of expenditure.

Coffee

Data show that coffee production is extremely efficient at all price scenarios analyzed where individual DRC scores range from just 0.08 to 0.23 at the lowest five-year average price. These are among the best results of all activities analyzed and show that Zambia enjoys a strong comparative advantage in coffee production even when world prices are low. Variations in world price do, however, have a serious impact on farm profitability. For the base 1995/1996 season, when international coffee prices were very high, farmers were estimated to earn an average of US$7,198/ha.

Roses

Data show rose production to be an extremely efficient activity where the DRC is just 0.13. Green-field start-up costs, however, are very high at an estimated US$0.5 million for a four hectare project, including greenhouse construction, cold storage facilities, irrigation equipment, plant material, and electrification. Therefore, with variable costs of nearly US$50,000/ha, this activity is only suited to skilled entrepreneurs with access to large amounts of operating capital and equity needed to secure bank loans. Although start-up and operation costs are high, these investments can provide good returns where the annual net income is estimated at roughly US$88,000/ha. Since many rose farms are only four hectares large, however, this figure makes little sense until it is compared to the overall profitability of alternative enterprises. Specifically, the total net profit from a typical four hectare rose operation is about US$352,000 per year.

Paprika

Study results show that Zambia enjoys a strong comparative advantage in paprika and the net profit results show this crop can be very rewarding financially. Compared with the other nontraditional export crops analyzed here, the results for paprika are less favorable but still good in their own right, especially when compared with other traditional commercial crops including maize, cotton, soybeans, and even Virginia tobacco.

Beef

Data show that Zambian farmers are efficient in the production of export beef and that the country enjoys a good comparative advantage in this activity. The DRC scores for beef are higher than for many annual crops, but are still well below 1.0 and are acceptable.

4.4 OVERVIEW OF CONCLUSIONS AND IMPLICATIONS FOR ZAMBIA'S AGRICULTURAL PRODUCTION AND INTRAREGIONAL TRADE PROSPECTS

Professor Oliver Saasa presented concluding remarks on the contents of the report and showed the implications of the results for Zambia's intraregional trade prospects in agricultural commodities. First, in summarizing the main findings of the study, Professor Saasa highlighted the following:

- All staple food crops could be efficiently produced to meet local requirements but are relatively less profitable than alternative activities.
- Nontraditional exports are promising in terms of contribution to export earnings, but the rate of expansion is likely to be affected by the limited availability of specialised financing. This calls for expansion of affordable credit facilities for these products.
- Local financial markets have not yet evolved into viable alternative sources of long-term capital.
- Most of the nontraditional products are labor intensive and their expansion could help to raise rural incomes and employment. Thus, the growth being experienced in the nontraditional sector is having a positive impact on employment generation.
- Many of the manufacturing plants have now been privatized. With additional injection of capital, capacity utilization and the demand for raw materials are expected to increase.

- Most of the efficient and profitable export crops are land intensive. A switch to these products could help to reduce the cultivated area.

Notwithstanding the above, Professor Saasa noted that agriculture, like all other sectors, is affected by developments in the broader economy. The government, in particular, has usually intervened in the economy in pursuit of social goals and such interventions have often distorted the structure of economic incentives, a phenomenon that works against economic efficiency, resulting into suboptimal allocation of resources. Professor Saasa noted that the effect of inflation, interest rates, and tax policy on agricultural production in the past few years has illustrated the real and potential threats to a sustainable agricultural production even under conditions of relative comparative advantage. Similarly, high interest rates make it difficult for farmers to operate. A significant reduction in interest charges, maintained Professor Saasa, could help towards solving the liquidity crisis now facing the Zambian agricultural sector. Moreover, the government tax policy also has an impact on the different categories of farmers' relative profitability. New tax policies tend to benefit mainly commercial farmers since the traditional sector makes less use of the affected inputs. In this regard, Professor Saasa stated that the study has shown that such government interventions as interest rate regime, the tax policy, value added tax administration, and subsidy on agricultural inputs to support smallholder farmers could adversely affect the principal of CEA in its ability to guide resources to their economically most efficient users.

The main lesson from the above, reported Professor Saasa, is that even though Zambia's agro-ecological attributes provide the potential to achieve higher growth rates in certain crop and animal production activities, nonagronomic factors have continued to limit the achievement of this potential. These bold initiatives are, thus, required to remove these constraints.

Professor Saasa drew some implications for Zambia's regional competitiveness in the form of the following questions:

- Is there room for protection under the COMESA FTA?
- What is the role of the State under a liberalized trade regime?
- What happens with respect to third party commodities entering the region?
- Is there room for a Common External Tariff?

4.5 DISCUSSION OF THE LAUNCH PRESENTATIONS

Participants commented on the presentations in a generally positive manner. It was generally felt that the study has brought to the surface major issues that the government should pay attention to. The findings on respective crops were found to be particularly insightful and researchers were commended.

Questions were raised, however, regarding the reliability and limitations of PAM as a tool of analysis. In response, the researchers showed the major merits of the methodology used. It was explained that, based the production models developed during field research, the analysis also constructed a set of PAMs. The PAM, it was explained, is a product of two accounting identities. The first defines *profitability* as the difference between revenues and costs. The other measures the effects of government interventions or divergences (market failures) as the difference between observed parameters and parameters that would exist if the divergences were removed. By filling in the elements of the PAM for agricultural activities, the researchers explained that it is possible to measure both the extent of policy effects and the inherent economic efficiency (or comparative advantage) of the activity.

With respect to the limitations of PAM, the researchers acknowledged a number of them and actually referred the participants to the report that highlights these. The report actually notes that while the PAM provides a great deal of information about agricultural production systems, it is important to note some of the things it does not tell the analyst, as well as a few of the complications associated with its use. First, the PAM is not a behavioral model and cannot be used to calculate the new quantities of outputs and inputs that would follow from changes in national opportunity cost prices or from any other alternative prices (such as those resulting from sector development projects). The input-output physical budget is itself the product of past adjustments to actual market prices. Rather, the PAM tells only the relative incentive for change, without measuring the magnitude of change. Estimation of new input and output quantities requires more detailed behavioral models of supply and demand, specifying elasticities and resource constraints.

Second, the PAM is frequently criticized as being static, whereas efficiency and comparative advantage are dynamic concepts. This weakness can be partially overcome through the construction of additional PAMs that utilize social prices for outputs and costs that approximate best guesses of expected future prices, and thus serve as proxies for long-run equilibrium levels. Finally, it is important to note that an inherent problem with the PAM is its intensive use of data. Detailed information is needed on farm-level costs of production (including the value of family and hired labor), transportation costs, economic distortions, and international commodity prices. This means that the analyst is presented with many opportunities to utilize inaccurate price data and to make mistakes.

One participant felt that the absence of comparability of data from other countries in the region does minimize the utility of the findings with respect to comparability of agricultural comparative advantage of Zambian agricultural commodities. In response to this, it was clarified that the comparative advantage analysis in the study is principally focused on comparable commodities within Zambia and across the country's agro-ecological zones. It was, nevertheless, pointed out that some sensitivity analysis, particularly with respect to transportation costs within the region, has been included in the study. Participants were further informed that more cross-border studies have been undertaken in the region and referred them to the briefing by Ms. Kitiabi on the cross-border informal trade studies. They were further informed that regional workshops (that would present the findings of some of the cross-country studies) are scheduled for the region and Zambia might be one of the countries where such regional dissemination meetings would be held.

CHAPTER 5.
PANEL DISCUSSIONS

The workshop included two panel discussions, one on production and export potential of Zambia's agricultural sector and the other on the institutional framework for increased agricultural production in the country. The first panel discussion was preceded with a specially commissioned paper from the ZNFU. This paper was designed to raise the issues as seen from the perspective of the private sector.

5.1 FIRST PANEL DISCUSSION

5.1.1 Thematic Presentation

The first panel discussion covered the topic: *Production and Export of Nontraditional Agricultural Commodities in Zambia: The Challenges and Opportunities under COMESA FTA Regime.* Prior to the presentations of the panelists, Mr. Zyambo of the ZNFU gave a lead paper. He noted that even though Zambia continues to be in the forefront towards ratification and full implementation of various treaties, the implications of the FTA are yet to be fully realized. He maintained that Zambia does not have enough information to ascertain whether if it shall be a net importer or exporter in the FTA. He complained that Zambian policymakers have known about the coming of COMESA for a long time but that there has been no practical strategy formulated to ascertain the country's economic positioning in the FTA. Thus, he feared that Zambia's potential competitors, such as Zimbabwe, have been pushing for the FTA while at the same time adequately preparing themselves with their aggressive trade negotiators.

Mr. Zyambo also stated that there has been no effort in Zambia to engage stakeholders in consultations before or after ratification of trade agreements. The tendency to consult only when there is a crisis, he argued, has led to short-term measures, which have not brought sustainable agricultural growth.

Mr. Zyambo reported that ZNFU supports the concept of erasing borders and barriers, and the realisation of economies of scale that shall be achieved. In this regard, ZNFU would remain supportive of the FTA as long as jointly agreed measures are put in place to ensure the survival of the farmers. Given this position, the question which then arises, according to ZNFU, is not: "is Zambian agriculture ready for this development?" but rather, "how can Zambian agriculture best cope with, and adjust to, this development?"

With respect to agricultural potential, Mr. Zyambo noted that, despite its huge potential, Zambia's major difficulties in this sector arise because there is a lack of any commonly agreed direction to the industry. There appears to be uncertainty between the various players, to the point where it is unclear as to who is driving the policy. He argued that the various stakeholders (i.e., the Government, the farmers, the donors, NGOs, and users of agricultural output such as millers) seem to function either independently or even in opposition to each other. Unless timely action is taken to redress the current situation, ZNFU feels that the introduction of the FTA is more likely to exacerbate the position than improve it, more especially in the area of food production, at least in the short to medium term.

With respect to Zambia's competitiveness, ZNFU acknowledged that the current export enclaves have achieved impressive results. Examples of successful nontraditional exports highlighted by Mr. Zyambo included coffee, floriculture, fruits and vegetables, tobacco, and paprika. The constraints that he identified include limited foreign direct investment in the sector, inadequate long-term financing, the high cost of fuel and electricity, limited container facilities, limited cold storage facilities, unclear duty-free status of critical spare parts, high costs of freight, and the absence of an agricultural development fund.

Mr. Zyambo offered a number of possible solutions to the problems in the agricultural sector, including:

- Develop a coordinated agricultural strategy, agreed upon and owned by all the major stakeholders. Ideally, strategy should be determined by what crops should be grown and production output. These decisions should be driven not by our food needs so much as by comparative advantage.
- An overall specific study should be commissioned that highlights the existing structure of Zambia's specific agricultural subsectors such as poultry, beef, grains, etc. For the subsectors, the structure and competitiveness needs to be fully understood. The study should present the opportunities and challenges that face the subsectors in the event of increased competition from the FTA. It was reported that ZNFU is already facilitating the commissioning of the study.

Finally, with respect to initiatives and actions which Zambia should have been following and which it must now immediately put into action with the coming of the FTA, Mr. Zyambo offered the following suggestions:

- Analyze the agricultural sector constraints.
- Identify the required institutional support for the agricultural sector, with a specific time-bound action plan for each major agricultural subsector.
- Establish linkages between agriculture and other industries, such as agro-processing, packaging, transportation etc.
- Rationalize value added tax (VAT) legislation and procedures.
- Reduce energy costs.
- Introduce and implement safeguard legislation to ensure fair trade such as anti-dumping and countervailing duty regulations and rules to protect infant industries.
- Improve air transportation, energy supply, and telecommunication services

A brief discussion that followed Mr. Zyambo's presentation raised the following issues:

- The COMESA-SADC conflict should be resolved in the light of the fact that the two regional bodies are both working at the establishment of FTAs.
- The issue of protecting small-scale enterprises was raised and the need to recognize that the FTA would lead to the overshadowing of local producers by imported foreign goods.
- The question of input supply, particularly fertilizer, was raised *vis-à-vis* the degree to which private sector entry could be assured in an environment where continuous state intervention makes private operators reluctant to come in. It was generally felt that private sector entry should be facilitated and that government entry and controls should be minimized to ensure profitability of the private sector (the engine of agricultural growth) is not compromised.

After the brief interventions, a panel of four discussants took up the issues raised by Mr. Zyambo. The panelists raised the following issues.

5.1.2 Panelist Presentations

First Panelist: ***Ms. Ireen Tembo, Director of Trade for the Ministry of Commerce, Trade and Industry***

It was reported that the government is doing everything possible to create a hospitable environment that would enable local producers to remain competitive in the FTA. Although the exact measures the government is working on were not explicitly stated, the policy of liberalization itself was cited as one of the effective ways of ensuring that local producers are facilitated with a levelled playing field on which to compete with incoming regional imports. Concerning the need for the government to ensure that it guards against dumping, Ms. Tembo reminded the participants that the process of establishing that dumping is actually taking place and that injury to local producers has been effected is quite cumbersome, complicated, and therefore, difficult to come up with clear cases.

Second Panelist: ***Mr. Namukolo Mukutu, Chairman for the Agriculture Consultative Forum***

Mr. Mukutu cited the absence of a "harmonized vision" of what Zambia wants to become in the area of agriculture as one of the major impediments to the sector's productivity and regional competitiveness. What Zambia wants to become within the FTA, he stated, should be made clear. As a way forward, Mr. Mukutu visualized a "Growth Triangle" that involves a more symbiotic relationship between (a) the farmers and buyers; (b) infrastructure, extension, and research; and (c) financial services. He argued that unless the government and the private sector recognize the fact that these factors are intertwined and that they should be developed to support each other, little progress should be realized.

Third Panelist: ***Mr. C.L. Chanthunya, Director of Trade for COMESA***

Mr. Chanthunya gave the participants the background of FTA, stating that it was conceived a long time ago, dating back to 1965 and the process of tariff reduction actually began in July 1985. He highlighted some of the expressed fears about the FTA, including the concern that extra-regional products could find their way into Southern Africa. He stated that COMESA has developed ways to ensure that such goods are excluded from benefiting from the favorable provision of the FTA Protocol. For example, COMESA has provided for levying against anti-dumping and countervailing duties against subsidised exports. He informed participants that a Common External Tariff is planned for 2004 at 0% for capital goods, 5% for raw materials, 15% for intermediate goods, and 30% for final goods. He further stated that regional countries should respond favorably and promptly to the zero tariff regime that would help improve intraregional trade interaction among COMESA countries.

Forth Panelist: *Mr. L.C. Mbewe, Managing Director of ZEGA*
Mr. Mbewe provided detailed information to the participants regarding the nature and extent of ZEGA operations. He stated that 94% of flower exports from Zambia go to Holland and almost 100% of vegetables go to the United Kingdom. He then catalogued a number of constraints to ZEGA members' operations that include the following:

- government is not effectively supportive in giving air service permits to operators;
- high transportation costs mainly due to fuel costs that, according to Mr. Mbewe, are the highest in the Southern African region;
- absence of a dependable database; and
- poor payments system.

An open discussion followed the panelists' presentations and a number of issues emerged. The following are noteworthy:

- The payments system in Zambia is poor due to the absence of viable export credit facilities as well as export prefinancing revolving funds. The absence of strong export insurance facilities was seen by the participants to be another problem among Zambian exporters.
- There is need for improved dialogue and response mechanisms between the private sector and the government. The private sector believes that it is doing its part but that the government responses to policy queries are usually too slow. It was strongly felt that there should be transparency so that producers and exporters know why the government is not responding to a number of calls that have implications for the country's preparedness for the FTA.
- The need to come up with a legislative framework that responds to the emerging FTA environment was stressed by participants. They urged government to take legislative reforms more seriously than has so far been the case.
- There is need to strengthen the capacity of the private sector to put it in better stead for the new trade regime. With respect to the quality of exports, sanitary considerations were cited as being among those areas where the state can play a more proactive facilitative role to ensure that Zambian products are competitive.
- Notwithstanding the above issues/recommendations, participants generally agreed that the main issue *vis-à-vis* Zambia's regional competitiveness borders on the capacity of local producers to improve their productivity, a factor that has less to do with the FTA *per se* but more with the structure of production in Zambia itself and the nature of the domestic policies. Zambia's taxation is considered restrictive with too many discretions. In this regard, a number of participants maintained that tariffs are not really the key issue, however, as are (a) improved production; and (b) NTBs.

- The establishment of Export Processing Zones (EPZs) was discussed as a way of enhancing Zambia's productivity for the export market. It was, however, inconclusive as to whether the provision of EPZs would run counter to the FTA.

5.2 SECOND PANEL DISCUSSION

The second and last panel discussion was held during the second day of the workshop and focused on *Policy and Institutional Preparedness of Zambia for Enhanced Agricultural Production and Trade*. The aim was to provide participants with the opportunity to learn about and discuss the government's institutional facilitation and preparedness for a liberalized production and trade regime, bearing in mind the expectations of FTA. In this regard, two directors, one from the Ministry of Commerce, Trade, and Industry and the other from the Ministry of Agriculture, Food, and Fisheries constituted the panel. Unfortunately, a representative from the private sector was unavailable to join the group of panelists. Below is a summary of the panelist's presentations.

First Panelist: *Ms. Ireen Tembo, Director of Trade for the Ministry of Commerce, Trade, and Industry*

Ms. Tembo informed participants that in Zambia, trade policy has been an integral part of the economic reform programme embarked on since 1991 and it aims at establishing a viable external account coherent with higher growth in a stable macroeconomic environment. The overall objective of trade policy is to reduce dependence on falling mineral exports and to promote NTEs. It also aims to secure improved market access for Zambian products in export markets and ways of achieving this have included membership to COMESA, SADC, WTO, the ACP-EU grouping (the Lome Convention), and through negotiations of bilateral trade agreements.

Ms. Tembo further stated that Zambia's policy reforms have included the removal of tariff and NTBs as well as quantitative import restrictions. Tariffs are presently the main trade policy instrument in use in Zambia. Tariff reforms have included the simplification of the tariff structure by reducing the tariff bands to four and the reduction of tariff levels from 100% on the highest tariff to 25%. Another aspect has been price decontrol. Ms. Tembo further stated that trade policy reforms have been supplemented by reforms in the banking and financial sectors that have included the removal of exchange controls and a move towards market-determined interest rates. Requisite institutional and legal reforms have also been effected to facilitate these changes.

After giving a detailed background to the COMESA and SADC objectives and the components of their respective trade protocols, Ms. Tembo addressed the ability of Zambian products to compete favorably with imported goods in the open market to be created in the advent of the FTA. She noted that the main area of the private sector's concern is loss of business under FTA. She informed the participants, however, that in the event of a 'sensitive industry' being affected by the implementation of the COMESA FTA, the treaty has a provision that allows for the protection of such industries. Similarly, if a country is proven to be dumping in another country, the COMESA treaty has a provision under Article 51 that allows a member state to levy on any dumped product an anti-dumping duty not greater in amount than the margin of dumping in respect to such product. Ms. Tembo conceded that factor costs tend to render Zambian products uncompetitive and that local industry considers that the 'playing field' is not level, as their regional competitors operate under better conditions. Notwithstanding this, she argued that FTA has a direct impact on industrialization, agricultural development, and harmonization of technical standards and regulations

Ms. Tembo reported that there have been measures put in place to enhance the ability of Zambian products to compete favorably in the FTAs. But she cautioned that the competitiveness of Zambian products under FTA couldn't be addressed by trade policy alone but by a fully integrated package of macroeconomic reforms. She identified a number of issues that affect competitiveness. They included the cost of fuel, electricity, and transport; unsupportive domestic tax structure; poor transport infrastructure; and NTBs.

In conclusion, Ms. Tembo stated that the Zambian Government is committed to the ideals of regional trading arrangements. She noted, however, that having two parallel FTAs with the same intentions (i.e., both COMESA and SADC) introduces a technical problem, particularly when both of them shall be fully implemented.

Second Panelist: ***Mr. A.K Banda, Director of Planning and Cooperatives Development for the Ministry of Agriculture, Food, and Fisheries***
After highlighting some of the opportunities and prospects of the agricultural sector, Mr. Banda outlined the main elements of the Agriculture Sector Investment Program (ASIP) that constitutes the main policy and institutional framework within which the agricultural sector develops in Zambia. He stated that the thrust of ASIP includes the following:

- increase incomes from agriculture,
- increase employment creation,
- increase production of agricultural raw materials for the industry,
- increase foreign exchange earnings through the promotion of nontraditional high-value export crops.
- improve household food security, and
- maintain and improve the existing agricultural resource base (air, water, and soils).

He then showed how, through its crop diversification strategy and outgrower schemes, the government hopes to ensure the development of the agricultural sector. ASIP's four main components, he informed the participants, are policy and institutional reforms; support to private sector development; rehabilitation and strengthening of public sector agricultural services and; the Rural Investment Fund (RIF). He stated that the RIF has proved critical to the improvement of infrastructure in the agricultural sector through enhanced accessibility of small-scale farmers by providing good feeder roads, bridges, and canals; improved trading facilities by putting up storage and marketing sheds; improved disease control through availability of dip tanks and other medicines; improved fish production through stocking of dams and other water bodies; and easy access to safer drinking water through the provision of bore-holes and concrete wells. Mr. Banda also presented the rationale for the revival of the cooperative movement in Zambia as an important tool for improved agricultural production and marketing.

Mr. Banda further argued that one of the strong points Zambia has is the abundant land resources. It has cultivable land of 42 million hectares of which only 14 percent is cropped. Apart from ample land, Zambia has water bodies such as lakes and rivers that are not yet exploited for irrigation. He informed participants that only 6 percent of Zambia's irrigation potential is currently being exploited. In addition, Zambia's favorable soils and rainfall conditions, its proximity to regional markets, and its relatively low labor costs further give Zambia an added advantage. The country is further endowed with abundant forestry resources that are yet to be fully exploited for export markets.

With respect to the export potential of the agricultural sector, Mr. Banda stated that the nontraditional sector is most promising where agricultural exports have progressively been increasing over the years since 1991. Enhanced export earnings have been particularly impressive in floriculture and in the horticulture sector involving fresh cut flowers, fruits and vegetables. Mr. Banda attributed the progression of Zambian growers in this sector to a number of donor-aided programs like the Export Development Program credit that facilitated the procurement of inputs and capital items. The Export Development Program, he added, also provided technical and marketing assistance.

Lastly, Mr. Banda stated his belief that the FTA will provide expanded market opportunities for Zambia although the main challenge lies not in tariff elimination but in the production of high quality products that are regionally competitive.

5.3 OPEN DISCUSSION

On the basis of the presentations by the two senior government officials, workshop participants raised the following issues:

- It was generally felt that there is presently poor facilitation of productive dialogue between the government, the private sector, and among government ministries that support the development of trade. In this respect, participants urged government to develop more transparent and meaningful avenues through which the views of the producing and trading community in Zambia could be channeled. The effectiveness of the existing consultative forums, therefore, need strengthening.
- There is recognition that the regulatory and legislative environment that supports trade and investment in Zambia is weak and government was urged to begin reviewing existing legislation and align it to the emerging FTA provisions and challenges. It was the view of some participants that other countries within the COMESA region are better prepared for the prospects of FTA. In the area of data preparedness, for example, South Africa's facilitative institutions such as the South Africa Foreign Trade Organization (SAFTO) were cited as examples that could serve as a good starting point in establishing the requisite database on Zambia's market opportunities, commodity profiles, existing payments systems, export routing data, etc.

CHAPTER 6.
CLOSING SESSION

During the brief closing ceremony, Professor Saasa, the workshop facilitator, thanked the participants for their positive participation. Ms. Tembo, expressed the Ministry of Commerce, Trade, and Industry's gratitude to the researchers and the funders for facilitating the production of the report. It was stated that similar studies should be encouraged in future. The representative of the Agriculture Consultative Forum, Mr. Mukutu, stressed that the fears of FTA are most often unfounded and that Zambian producers need to enhance their efficiency in production and marketing. Notwithstanding this, he reminded government and the private sector that Zambia needs to plan for the FTA and a more harmonious approach to doing this by all stakeholders is essential. The need for dialogue among all parties stressed once again. Ms. Kitiabi of USAID/REDSO thanked the participants and hoped that the recommendations that emerged during the two days would be captured in the workshop report. Lastly, Ms. Helen Gunther of USAID-Zambia also stressed the importance of developing partnerships and networks among government, private sector, donors, and NGOs. She rededicated USAID's support to Zambian agriculture.

APPENDIX 1. WORKSHOP PROGRAM

WORKSHOP PROGRAM
Pamodzi Hotel, Lusaka
16-17 August 2000

TIME	ACTIVITY	RESOURCE PERSON	SESSION
Day 1: 16 August, 2000			
08.00-09.00	**REGISTRATION**		
09.00 -09.30	Official Opening	• Permanent Secretary, Ministry of Agriculture, Food and Fisheries (Mr. Mulele) *Chairman: Professor Oliver Saasa*	**1**
09.30-10.00	Keynote Address: COMESA's FTA: the Rationale and effect on agricultural production and trade	Mr. Mwencha, Secretary of COMESA *Chairman: Professor Oliver Saasa*	**2**
10.00-10.30	**TEA BREAK**		
10.30-12.00	Launch of the book: *Comparative Economic Advantage of Alternative Agricultural Production Activities in Zambia* *[Note: The report shall be made available at time of registration]*	*Chairman:* Dr. Moses Banda, Permanent Secretary, Ministry of Commerce, Trade and Industry	**3**
	Statements: 1. Regional dimension of the Study	Dr. M. Kitiabi, Regional Trade Advisor USAID/REDSO/ESA-Regional Trade Analytical Agenda	
	2. Overview of the Zambian study	Professor Oliver Saasa, Study Team Leader	
	3. Main Findings: Agro-ecological Zones; Farming Systems, and Production Trends	Dr. Denis Chiwele, Study Team Member	
	4. Agricultural Comparative Advantage: Presentation of main results	Dr. F. Mwape, Study Team Member	
	5. Overview of Conclusions and Implications for Zambia's agricultural production and intraregional trade prospects	Professor Oliver Saasa, Study Team Leader	
12.00-13.00	Open discussion on the Report	Plenary	
13.00-14.00	**LUNCH**		
14.00-14.30	Production and Export of nontraditional agricultural Commodities in Zambia: The challenges and opportunities under COMESA FTA regime	Mr. Zyambo, ZNFU *Chairman: Dr. F. Mwape*	**4**

14.30-15.30	Panel Discussion on FTA and Zambian Agriculture Production and Trade	*Chairman:* Dr. Chabwera, Zambia Chamber of Commerce and Industry (ZACCI) Panelist: 1. Dr. Moses Banda, Permanent Secretary, Ministry of Commerce, Trade and Industry 2. COMESA Director of Trade 3. Managing Director, ZEGA 4. Mr. Namukolo Mukutu, ACF	**5**
15.30-16.00	**TEA BREAK**		
16.30-17.00	Open Discussion on the issues raised by the panelists	Plenary *Chairman: Dr. Chabwera*	**6**
Day 2: 17 August, 2000			
09.00-09.30	Overview of Day One's Deliberations and introduction of Day 2	Professor Oliver Saasa	**7**
09.30-10.00	Policy and Institutional preparedness of Zambia for enhanced agricultural production and trade	*Government Perspective:* *Trade*: Ms. Ireen Tembo, Ministry of Commerce, Trade & Industry *Policy and Institutional*: Mr. A.K. Banda, Ministry of Agric. Food and Fisheries *Private Sector Perspective:* to be announced Chairman: Dr. Denis Chiwele	**8**
10.00-10.30	**TEA BREAK**		
10.30-12.00	Open Discussion on Policy and Institutional concerns	Plenary Chairman: Dr. Denis Chiwele	**9**
12.00-13.00	Closing Statements: The Way Forward	*Chairman: Professor Oliver Saasa* Government: Dr. Moses Banda, Permanent Secretary, Ministry of Commerce, Trade and Industry Private Sector: Dr. Chabwera, ZACCI USAID: Dr. M. Kitiabi, Regional Trade Advisor USAID/REDSO/ESA Ms. Helen Gunther, USAID-Lusaka Office	**10**
13.00	**LUNCH**		

APPENDIX 2. DISCUSSION PAPERS

PRODUCTION AND EXPORT OF NON TRADITIONAL AGRICULTURAL COMMODITIES IN ZAMBIA - ZNFU VIEWS

S. Zyambo, ZNFU

Introduction

Allow me to express my gratitude to the workshop organizers for inviting the Zambia National Farmers' Union to make this presentation. The Zambia National Farmers' Union considers the workshop timely and the theme appropriate. We are all aware that in less than 80 days, Zambia will be expected to start facing the challenges of a Free Trade Area when COMESA is formally launched in October 2000.

Zambia has been a valued participant in regional groupings, being a signatory to both the COMESA Treaty and the SADC Protocols. We have also performed very well, as participants, at the World Trade Organization and the Africa Caribbean and Pacific forum. We have continued to look beyond our borders to other regional groupings such as SACU and others.

Even though we continue to be in the forefront towards ratification and full implementation of various treaties, the implications of the FTA are yet to be fully ascertained. Zambia does not have enough information to ascertain if we shall be net importers or exporters in the FTA. Our farmers do not know if they are investing in an enterprise that will survive the FTA. Our government does not know which enterprises to support and which ones to let go.

Our policy makers have known the coming of COMESA for a long time but there has been no practical strategy formulated to ascertain our economic positioning in the FTA. The push towards FTA has been done with out a similar push for correct measures that need to be put in place to remain competitive. Our potential competitors like Zimbabwe and others have been pushing for the FTA while at the same time adequately preparing themselves with their aggressive trade negotiators.

In Zambia, there has been no effort to engage stakeholders in consultations before or after ratification of trade agreements. It has been a purely Government affair until now. The tendency to consult only when there is a crisis has led to short-term measures, which have not brought sustainable agricultural growth.

The ZNFU has been pushing for involvement in the strategic planning of our economic decisions, including trade protocols. We are glad to note that, of late, steps have been taken to facilitate our participation. The ZNFU supports the concept of erasing borders and barriers, and the realisation of economies of scale which will be achieved. In this regard the ZNFU will remain supportive of the FTA as long as jointly agreed measures are put in place to ensure the survival of the farmers. Thus, the ZNFU is a supporter of the FTA as long as the playing field is level.

Given the factual situation of the FTA, the question which then arises is not "Is Zambian agriculture ready for this development?" but rather "How can Zambian agriculture best cope with and adjust to this development."

Based on 1998 statistics, the situation may not look bad. For Example, intra COMESA trade accounts for only 15% of Zambia's imports whereas our exports to COMESA account for 22% of our total export trade. However, when examined more closely we notice that 83% of our COMESA imports come from one country only i.e. Zimbabwe. Conversely, 53% of our exports to COMESA go to two countries; Congo DR and Malawi from where we import very little. So when we talk of COMESA, we are talking of imports from Zimbabwe and exports to the DRC.

Zambian Agriculture

Zambia has huge agricultural potential enjoying as it does a good climate, adequate water resources and vast tracts of un-utilized land suitable for agricultural production. Despite these advantageous conditions, Zambia is currently a net importer of food.

Having moved quickly from a Government controlled environment to a free market system during the last decade, Zambia now needs to reconsider its policy for the agricultural sector. As is true in all situations, the first step towards corrective action is to recognize the problems.

Some of the major difficulties currently faced by Zambian agriculture arise because there is a lack of any commodity-agreed direction to the industry. There appears to be uncertainty between the various players, to the point where it is unclear as to who is driving the policy. The various stakeholders (i.e., Government, the farmers, the donors, NGOs and users of agricultural output such as millers) seem to function either independently or even in opposition to each other. The liberalized system of production and marketing has had an adverse impact on small-scale and subsistence farming separating as it has, the previous linkage between the financial arrangements obtaining in the supplying of inputs and the disposal of output.

Unless timely action is taken to redress the current difficult situation, the introduction of the FTA is more likely to exacerbate the position than improve it more especially in the area of food production, at least in the short to medium term.

In terms of competitiveness Zambia imports few of its farming inputs from COMESA sources (they come mainly from South Africa or overseas). So, the duty-free treatment of such goods will hardly benefit the Zambian farmer. On the other hand, the agricultural output of the more developed member states of COMESA (such as Zimbabwe in particular, Kenya, Mauritius and perhaps Egypt) imported into Zambia duty-free could pose a serious competitive threat to Zambian agriculture.

Competitiveness

The current export enclaves such as horticulture, floriculture, coffee and tobacco under specific schemes that, significantly, are funded by multilateral and bilateral funds and rational rates of interest and repayment periods longer than one season, have achieved impressive results. This growth must be assessed further in the context of international market access, and reasonable price realisation.

Examples of Exports of Non Traditional Exports

Coffee

The coffee sub-sector has grown significantly since 1990. Commercial growers have risen from 20 in 1990 to 70 in 2000. During the same period the hectares planted grew from 1000 to 3,800, while output increased from 1,300 metric tonnes to 4,300 metric tonnes. The smallholders have also increased in number from 600 to 900 during the same period. There has been very limited investment, though, in the smallholder sector with hectares planted remaining static at about 100 hectares.

The promotion of foreign investment in coffee can expand the huge potential already existing in the sub-sector. The availability of long term financing continues to be a constraint to the expansion of the industry. The recent inflation of some of the major input costs is a major constraint to the industry. The two major dependent on the efficiency and cost of electricity. Possibly, there should be some tariff reduction for NTE.

Funding for the construction of dams and development of water resources should be promoted to assist farmers in this regard. The country has huge water resources but many have not been developed. Being a land locked country, the resources but many have not been developed. Being a land locked country, the cheapest means of transporting exports is always top on the agenda. One alternative is by rail but unfortunately the operations of the present system leaves much to be desired. The problem is compounded by lack of appropriate facilities to handle heavy container loads such as of coffee. The Government should make every effort to ensure that the situation improves in terms of security and other operations. Most farmers are opting to transport coffee via Durban by road at US$2,400 per container when they could move it via Dar-es-salaam by rail at US$700.

Floriculture

The floriculture industry is still in its infancy and has shown good export potential. A considerable number of commercial growers have taken up floriculture, cultivating mainly roses. The growth has attributed to a revolving fund facility for procurement of inputs and small capital items and some marketing assistance.

This facility has not been easily accessible now and has posed a danger to expansion of the sector.

Fruits and Vegetables

This has been one of the fastest expanding sub-sectors. By 1988 the number of exporters had doubles to, over 40. The earnings had reached US$28 million by 1999 against US$20 million in 1998. Its share to the total Non Traditional exports reached about 8%. There is no doubt that we have comparative advantage in this sub-sector. However, the sub-sector is also threatened with lack of expansion. Having enjoyed the same financial facilities as the floriculture sub-sector, access to finance has become a problem. Growers are unable to expand their area planted.

Both the floriculture and horticulture sub-sectors depend to a large extent, on availability of cold storage, imported inputs and airfreight. The sub-sectors are still experiencing problems related to clarity on duty-free status of critical spares and components. Refrigerated truck spares are still coming in with prohibitive duty, which is a great deterrent to growers.

Consequently, the two sub-sectors, whilst growing have not reached a stage where they can produce competitive volumes that can be spread over freight charges. This has greatly influenced the quality of the produce because most charter planes are not filled up in one load. The loaded planes have to pass through other countries in order to fill-up. The delay causes deterioration in quality and consequently attracts a lower price. The high production cost regime in the country, coupled with risk of in-transit quality deterioration, results in our produce becoming uncompetitive.

The cost of freight has to be addressed if we have to keep these sub-sectors afloat. Airfreight permits are still being given in a non-transparent manner and has also created room for unnecessary middlemen who simply add on to the cost of production and freight. Increasingly, less weights of exported produce are fetching higher freight costs. There are early warnings that the primary producers are still receiving far less than they should if they reduced the number of intermediaries/agents.

The export of fruit and vegetable produce can be further enhanced if we attracted investment in agro-processing. Currently, our cost of processing is high due to lack of modernised plants that can add value to the primary produce. For our farmers they need to focus on achieving economies of scale through expansion or collaboration where they pool basic infrastructure and transport facilities amongst a number of producers, and possibly outgrowers where appropriate, to achieve optimal results.

Tobacco

Zambia has a very attractive climate for the production of tobacco, which can enable her to develop a competitive industry. The tobacco sub-sector has potential to restore its positive growth which was seen before 1992 when it was hit by a drought that left most farmers unable to pay back the loans. The lending interest rates sky rocketed to over 130% during the same period. The yields and quality have not improved significantly since that time. Most farmers have been caught up in the interest trap, which has proved difficult to keep up with.

As the interest rate fell, production again started rising with the value of exports rising from US$5 million in 1996 to US$ 17 million in 1998. In 199/2000 farmers have now been hit by a low international price, from around Usc 150/kg in 1998 to Usc 130/kg in 2000.

The situation in the Tobacco sub-sector illustrates why we need an agricultural development fund that can service the agricultural sector at preferential rates. The export value added through processing is also inevitable to keep the sub-sector competitive. This calls for investment in tobacco processing plants.

Paprika

Production of paprika for export has also been growing, mainly due to a guaranteed market and good prices. A number of outgrowers have been established. However, the value of its exports fell by almost 50% from US$2.4 million in 1997 to US$ 1.5 in the 1998/99 season. The fall was mainly attributed to lack of support to the processing sector which is vital if we have to compete in quality. This sub-sector can also be enhanced with investment in modern processing plants.

POSSIBLE SOLUTIONS

The success stories highlighted from the few examples cited could be sustained if we address the potential problems that surround these sub-sectors. First and foremost, Zambia has to develop a co-ordinated agricultural strategy, agreed and owned by all the major stakeholders. Ideally, the strategy should be determined by what crops we should grow and what output we should concentrate on producing. In turn, these decisions should be driven not by our food needs so much as by comparative advantage.

In order to determine what type of crops or output Zambia can produce competitively, proper studies, such as the one we are reviewing now, have been carried out. In such cases, references should be made to the results and that of previous studies.

An overall specific study should now be commissioned to highlighting the existing structure of our specific agricultural sub-sectors such as poultry, beef, grains, etc. For the sub-sectors, the structure and competitiveness needs to be fully understood. For example, in the poultry industry, there are broiler growers, egg producers and hatcheries whose strategic position and competitiveness need to be understood. The study should present the opportunities and challenges that face the sub-sectors in the event of increased competition from the FTA.

The ZNFU has taken steps to facilitate the commissioning of such a study, which will lead to the final determination of our strategic plan for agriculture. The proposed study will examine all the agricultural sub-sectors using the ZNFU sub-sector committees as the reference groups in order to create ownership of the strategic action plan by farmers and Government. The study will focus on non-revenue or non-tariff factors and other support mechanisms.

The study has already been discussed with the Ministry of Agriculture, Food and Fisheries, who are agreeable. The Netherlands Government have pledged financial support for the study. Meanwhile, the ZNFU is developing Terms of Reference for international and local consultants. The ZNFU is appealing to the audience present to support our initiative.

It is proposed that the joint strategic plan that will form a direct input into the Poverty Reduction Strategy Paper (PRSP) which the Government is undertaking. This will serve time and resources as well as avoid duplication of efforts.

There are a host of initiatives and actions which Zambia should have been following and which it must now follow immediately with the coming of the FTA.

These include:-

- Identifying the constraints which have inhibited agricultural development and taking the necessary remedial action;
- Co-ordinating the institutional support which is available to the industry; developing a time-bound action plan for each major agricultural sub-sector;
- Following market trends for all agricultural output; and
- Establishing linkages between agriculture and other industries, such as agro-processing, packaging, transportation etc.

In practical terms, the rehabilitation of the road and railway systems, the development of the Tazara Corridor, the appointment of a few competent trade attaches and the presentation of an agriculture-driven annual budget would go a long way towards achieving some of these objectives. Other practical measures that should be undertaken once we identify our areas of strength and support are:-

- Rationalisation of VAT legislation and procedures (the present regime favors finished products as opposed to productive activities, e.g. farm inputs are VAT able, imported food is zero-rated)
- Reducing energy costs through the lowering of excise duties on diesel and electricity, and
- The introduction and implementation of safeguard legislation to ensure fair trade, e.g. anti-dumping and countervailing duty regulations and rules to protect infant industries.

THE WAY FORWARD

Zambia must identify exactly who is to do what, not only at the production and marketing stage, but also at the crucial planning stage. Since the economy is now private sector driven, the initial impetus must come from the ZNFU. Given that food security is the primary responsibility of Government, Government has to be involved in the planning process but should take a minor role thereafter. A commodity or sub-sector agreed direction is the best option to come up with a strategic plan.

One a strategic plan has been agreed and adopted, it must be implemented immediately. There is no time left for long debates or reflection; we have to move quickly and decisively. Otherwise our worst fears of an avalanche of duty free imports of agricultural produce from Zimbabwe could be realized.

CONCLUSION

The ZNFU will also continue to lobby for increased Government expenditure on the improvement of the infrastructure and general business environment. More resources must be made available for the maintenance of law and order. Farm crime creates a high cost for farmers. Air transportation, energy supply and telecommunication services should be improved and Government must ensure that its FTA partners comply with the rules of fair and free trade. Government must be the facilitating partner in all these issues.

The final strategic plan for agriculture and the FTA must also take account of the impending conclusion of the SADC protocol on Trade. As SADC includes South Africa as its dominant economic force which already enjoys huge market access into Zambia at normal duty rates, the impact of the SADC FTA, due to be introduced in the 2008, could be significant. With the long gestation period for agricultural output, we must be mindful, not only of COMESA 2000, but also of SADC 2008, when we are concluding our medium to long term policy plans for agriculture.

OVERVIEW OF POLICIES TOWARDS REGIONAL TRADE

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INTRODUCTION

What is Trade Policy? Trade Policy is the framework of laws, regulations, international agreements and negotiating stances adopted by government to achieve legally binding market access for domestic firms. Fundamental components of trade policy are:

- most favored national treatment (equal treatment of trading partners)
- national treatment (non-discrimination between local manufactured and imported goods)
- transparency
- exchange of concessions.

To be effective, trade policy needs to be supported by domestic policies to foster innovation and international competitiveness, and it needs to be conducted with flexibility and pragmatism.

TRADE POLICY OBJECTIVES

In Zambia, trade policy has been an integral part of the economic reform programme embarked on since 1991. Trade Policy is aimed at establishing a viable external account coherent with higher growth in a stable macroeconomic environment. The overall objective of trade policy is to reduce dependence on falling export earnings from copper, zinc and lead and to promote NTEs. Coupled with this is the aim to secure improved marked access for Zambian products in export markets and ways of achieving this have included membership to the Common Market for Eastern and Southern Africa States (COMESA), the Southern African Development Community (SADC), the World Trade Organization (WTO), the ACP-EU grouping (Lome Convention) and through negotiations of bilateral trade agreements. (However, for this presentation focus is on Regional Trade i.e. COMESA and SADC.)

Trade Policy reforms have included the removal of tariff and NTBs as well as removal of quantitative import restrictions. Import controls are maintained only for health and security reasons. The tariff is the main trade policy instrument now in use. Tariff reform has included the simplification of the tariff structure by reducing the tariff bands to four (4) and reduction of tariff levels from 100% on the highest tariff to 25%. The aim is to increase compliance, remove protection of inefficient industries and easier administration of tariffs by the customs department. Another aspect has been the decontrol of prices in the economy in order to allow the forces of demand and supply determine the price levels in the efficient resource allocation. Trade Policy reform has been backed by reforms in the banking and financial sectors which, have included the removal of exchange controls and move towards market determined interest rates. Linking of reforms in trade and the financial sector is vital since the exchange rate and interest rates are important determinants in export performance and growth. Reforms of trade policy has also been followed with institutional and legal reforms in order to create an enabling environment for attaining the objective for which trade policy reform was intended.

REGIONAL TRADE AGREEMENTS (COMESA AND SADC)

Evolution of Goals

Early regional Trade Arrangements were seen and employed basically as an inward-oriented *exclusionary* device for *economic* relationships with most of the world. It extended to a small number of country's national import substitution industrial development policies to achieve national self-sufficiency, permitting purposes of economic efficiency. These early arrangements often involved allocation of sectors for investment and production among member countries. Most were unsuccessful for example, the Andean part.

Another goal of early trade arrangements was political e.g. for them to serve as examples of political consensus and unity among certain groups of nations and their peoples - to demonstrate unity of purpose and goods. In so far as these agreements were divorced from economic and commercial realities they failed to achieve their trade goals - one example, the Arab Common market intended as an expression of "Arab Unity".

Modern Goals - Facilitating Trade Liberalization/Economic Reform

The basic modern purpose of regional integration has been one of *inclusion*, e.g. using integration to achieve economic *synergy* by opening market and increasing cross-border trade through mutual liberalization of trade investment regimes thereby achieving economic growth and developing a competitive position in global markets. Synergy which is economic growth through trade creation - is achieved through

- eliminating/reducing national impediments to trade/investment
- harmonisation of tariff and legal/regulatory regimes to facilitate trade/investment
- co-ordinating macroeconomic and monetary policies.

Avoid marginalisation in global markets by aggregating the economic/trade "clout" or leverage of individual member states by:

- Internal trade liberalization among members - thereby enhancing the attractiveness (growth potential for imports) of the internal market.
- Adoption of a Common External Tariff
- Negotiating as a single, collective economic/trade unit in international trade for a.

Realize and sustain economic, trade and other reforms in place through treaty commitments rather than just domestic legislation. (it is hard to roll back reform by denouncing a treaty than by repealing laws). Zambia is a member and active participant of both COMESA and SADC and she values regional and bilateral co-operation especially with its neighbours.

The benefits of regional trade arrangements to member states are clear. The fact is that most of the member states of both COMESA and SADC have small national markets in terms of populations and purchasing power. As much the ability of individual countries to attract foreign investment into national economies is not effective. However, under the umbrella of either COMESA or SADC Free Trade Area this is achievable.

MAJOR PROVISIONS OF THE REGIONAL TRADE PROTOCOLS UNDER COMESA AND SADC

The major provisions in the COMESA protocol are:

- to attain sustainable growth and development of its production and marketing structures
- to promote joint development in all fields of economic activity and the joint adoption of macro-economic policies and programmes to raise the standard of living of its people and to foster closer relationships among its member states.
- To co-operates in the creation of an enabling environment for foreign, cross-border and domestic investment including the joint promotion of research and adoption of science and technology foe development.
- To cooperate in the promotion of peace, security and stability among the member states in order to enhance economic positions in international for a.
- To contribute towards the establishment, progress and realisation of the objective of the African Economic Community.

In order to promote the achievement of these aims, the members agreed in the field of trade liberalization and customs cooperation to establish a Free Trade Area by October 2000, a Customs Union and a Common External Tariff by 2004. To-date the members have simplified and harmonised their trade documents and procedures adopted a common customs bond guaranteeing scheme and established rules of origin with respect to products originating from member states and are cooperating in all fields of regional integration.

It is worth noting that the COMESA protocol is preferential meaning that the tariff reduction in the COMESA FTA will be across the board and countries will act on a reciprocal basis.

SADC TRADE PROTOCOL

The SADC Trade Protocol was signed in August 1996. Member States have been negotiating the modalities of implementing the Trade Protocol in order to benefit from the arrangement. Since January last year, member States have been meeting every month to negotiate and agree the phasing out of non-tariff barriers and reduction of tariffs.

On January 25, 2000, the Trade Protocol came into force as two-thirds of the member States had ratified. Zambia is in the process of ratifying the Trade Protocol. Reduction of tariffs in SADC will be done in three phases under category A, B and C with category C being the most sensitive products. The reduction of tariffs on sensitive products will be done in the twelfth year from 2004.

The major provisions of the SADC Trade Protocol are:

- promotion of cooperation in trade in goods and services

- development of trade and general/attraction of investment which are essential for economic integration
- strengthening of customs cooperation and fight illegal trade
- developing a framework of trade cooperation in finance, investment and other sectors.

The objectives of the SADC Trade Protocol are:

- to further liberalize intra regional trade in goods and services
- to ensure efficient production with SADC reflecting the dynamic and comparative advantages of its members
- To contribute towards the improvement of the climate for domestic cross-border and foreign investment
- To ensure the economic development, diversification and industrialisation of the region
- To establish a free trade area in the SADC region

ZAMBIAN PRODUCTS' COMPETITIVENESS UNDER FTA

The main area of the private sector's concern is mainly loss of business once the FTA is established since they feel that they are not yet ready to compete with companies from other countries where production conditions are more favorable than Zambia. These production conditions mainly refer to costs of production accompanied by subsidies and other forms of assistance received from national governments. However, in the event of an industry (sensitive Industry) being affected by the implementation of the COMESA FTA, the treaty has a provision that allows for the protection of such industries under article 49 (2). If a country is proven to be dumping in another country, the COMESA treaty has a provision under article 51 which allows a member state for the purpose of offsetting or preventing dumping, levy on any dumped product an anti dumping duty not greater in amount than the margin of dumping in respect of such product.

Whilst Zambian industries have confirmed their support of the principle behind the establishment of the FTA, their concern has been on the factor costs that they face which render their products uncompetitive. Local industry consider that the "playing field" is not level as their regional competitors enjoy a much more favorable environment which enables them to produce and export to Zambia at a much lower cost.

Zambian industries have therefore argued that the FTA will offer regional competitors an even much more favorable market in Zambia to the disadvantage of local industries. These concerns have mainly been raised by enterprises engaged in agriculture, agro-processing and manufacturing activities whose products are competing on both local and regional markets.

However, it should not be noted that a free trade area has a direct impact on industrialisation, agricultural development, harmonisation of technical standards and regulations. It is a catalyst and stimulus for industrialisation and therefore, the development of transport and telecommunication. Industrialisation of countries arises from competition and protection of only infant or sensitive industries.

At present, goods imported into Zambia from other COMESA member States that conform to criteria set under the Protocol on the COMESA rules of Origin enjoy a tariff preference of 60%, i.e. the duty paid is only 40% of the normal applicable for the class of goods imported.

Most of the other COMESA member States who are also Zambia's trading partners are already offering tariff preferences of 80% or higher, such as: Kenya, Tanzania and Zimbabwe. These three countries accounted for about 80.5% of the total value of imports into Zambia from the COMESA region in 1997 (with Zimbabwe accounting for 74% of this total). Conversely, these countries accounted for about 40% of Zambia's exports to the COMESA region during the same period.

A Study was carried out by Independent Management Consultants (IMCS) to analyze the effects of tariff reductions on Zambian companies. There are four possible effects that the tariff reduction can have on companies. These are as follows:

- Companies that produce in sectors that exist solely as a result of the tariff barriers. These will usually disappear when tariffs are reduced.
- Companies that exist in economic sectors where there is potential comparative advantage but which have not invested sufficiently, since the tariff barrier has protected them. These will have to invest quickly, find a partner or disappear.
- Companies that operate in appropriate sectors and have invested but are subject to unfair trading practices by their competitors and cannot seek protection from the law as well as companies that cannot take advantage of the new economic opportunities either because of lack of access to knowledge of other regional markets or because of lack of access to affordable finance. These will fail to thrive, though they may not disappear.
- Companies that are in a position to take advantage of new market opportunities, in particular well managed companies that have access to the business finance that they require. These will thrive, at least until new competition or the next challenge comes up.

From the above analysis, it can be seen that not all companies will be affected in the same way. The effect to some extent depends upon how the company has been organized and managed.

MEASURES TO ENHANCE COMPETITIVENESS UNDER FTA

Competitiveness of Zambian products in the light of free trade areas cannot be addressed by trade policy alone but by a fully integrated package of macroeconomic reforms. Other issues that affect competitiveness, which include the high cost of fuel, electricity and transport have to be addressed. The main areas that require to be addressed by government in order for Zambian products to be competitive are:

a. Review and further rationalisation of the domestic tax structure.
b. Reclassification of key manufacturing inputs facing high tariffs due to classification in a higher tier of rates.

c. High cost of electricity and fuel in relation to key regional trading partners
d. Poor transport infrastructure leading to the high cost of transport and poor linkage to key potential regional markets.
e. The effect of NTBs faced by Zambian producers when exporting to other COMESA/SADC member states.

In view of item B above, government has reclassified most raw materials and intermediate inputs used in production. These have been put within the range of 0 and 5% customs duty. This is to ensure that inputs are available to producers at world market prices in order to remain competitive.

In assessing the overall competitiveness of Zambian producers it is important to consider the issue of costs and its impact on competitiveness. Studies carried out have shown raw material costs are the most important and form the largest component of production costs (about 70%). Most raw materials used in production are not locally obtained due to weak backward and forward linkages in the economy.

In view of item C above on the high cost of electricity, government in its budget for the year 2000 announced a reduction in excise duty on electricity from 10% to 7%. However, there are other aspects that hinge on the operations of ZESCO and that contribute to the high cost of electricity and these will have to be addressed through the restructuring of the electricity sub-sector.

The fire experienced at Indeni Refinery in 1999, has resulted in higher import bills for fuel and subsequently high prices of the commodity being passed on to the consumer. A proper restructuring of the oil industry is urgent. Government has hinted at it intention to study options for the privatisation of Zambia National Oil Company, Indeni and TAZAMA pipeline.

In view of item D above, with regard to the NTBs in SADC countries, some work is being done as an integral part of the negotiations under the SADC Trade Protocol where each member state has submitted a list of NTBs existing in its country and those that it experiences in exporting to other SADC member states.

THE ANTICIPATED BENEFITS FROM FTA

In many parts of the region, the process of trade and economic liberalization is at cross roads of development with the result that regional trade success varies and in most instances many contradictions occur in the way business is done from country to country with regard to trade practices and institutional frameworks.

Member states in both Regional groupings - SADC and COMESA have continued to formulate and implement policy measures with one aim which is to create an enabling environment for trade and investment. To achieve this enabling environment, most countries within the region have and are still in the process of implementing structural Adjustment Programmes.

It is imperative for COMESA and SADC to strive for a coordinated tariff and non-tariff trade liberalization timetable, a harmonisation of applicable origin criteria and of customs documentation in order to overcome impracticable and intraregional trade inhibiting modalities and procedures.

South Africa represents SADC's decisive value added over COMESA. It is this factor that does not allow SADC to simply adopt COMESA's trade integration agenda. The anticipated benefits to Zambia's participation in globalisation through the establishment of regional Free Trade Areas are among others listed below:

- *A training ground to compete in the world market*. An important role of a Free Trade Area is that it acts as a training ground for enterprises to prepare and learn the tricks of international competition to compete in the world market.
- *Facilitation of economic and industrial linkages to boost economic growth and development*. A Free Trade Area enables member States' enterprises to export their surplus goods to other member states and import raw materials and other inputs from other member states, leading to the development of investment, production and distribution infrastructure which is a pre-requisite for industrialisation, and economic diversification of individual member States through vertical and horizontal linkages. It is the industrial, financing and trading infrastructure linkages of the United States and the European Union Enterprises, facilitated by Free Trade Areas, which makes them a force in world trade.
- The other important advantage of a Free Trade Area is its role to induce, motivate and attract direct foreign investment of large and medium scale because of the availability of a large market.
- By removing duties on imports between member States, a Free Trade Area should lead to increased revenue collection by member States from increased profits of the private sector and increased investment and production. This is because abolition of import sector and increased investment and production. This is because abolition of import duties on products is only a transfer of revenue from being collected by governments to increased profits by the private sector. Increased business profits can attract investors to invest more and expand production in the member States because of the increased profit margin arising from zero tariffs. A rapid entry of South African investors in COMESA member States has been partly due to benefits from COMESA preferential tariffs, e.g. Fridge-master in Swaziland.
- A Free Trade Area is also beneficial to importers of capital goods, raw materials and intermediate inputs for use in production. The development of trade in these goods among the member States is a critical factor for economic development of the region because it offers opportunities of capital goods, a free Trade Area is the most important factor needed because capital goods enterprises require large markets to reduce unit costs of production. Savings made as a result of reduced costs can then be invested in training and research, which are critical for transfer of technology and diversification of production.
- Developing higher levels of understanding and cooperation between member states
- Significant reduction in costs, largely due to the improved exploitation by enterprises of economies of scale in production and business operations

- New patterns of competition between industries and re-allocation of resources as, in domestic market conditions, real comparative advantages play the determining role in market access.

Some of COMESA's fastest investment growth areas with the potential for expansion are:

- Information and communications-huge potential including electronic commerce popularly known as e-commerce. And since Zambia is strategically located, this is an area that we may explore as a country.
- Agri-business - including horticulture and food processing. Zambia's agriculture industries have the potential of supplying agricultural products to the COMESA region. We can use in the COMESA region.
- Tourism - private wild life sanctuaries. Zambia has a lot of potential in tourism which we can use in the COMESA region.

It IS also worth noting that Zambia exports 23% to the COMESA region and imports 115 from the region. Therefore our inter COMESA trade in terms of exports is more than imports.

CONCLUSION

In conclusion, I should say that the Zambian Government is committed to the ideals of Regional trading arrangements. The benefits to be gained are tremendous, but this does not mean that there will be no problems encountered.

The Government and the private sector should work hand in hand and map out the best way forward as FTAs have come and are here to stay as can be observed from the new international economic order. However, I should also note that having two parallel FTAs with the same intentions is a big problem and this problem will be more apparent when both are fully implemented.

POLICY AND INSTITUTIONAL PREPAREDNESS OF ZAMBIA FOR ENHANCED AGRICULTURAL PRODUCTION AND TRADE

Abedanigo K. Banda, Director of Planning and Cooperatives Development, Ministry of Agriculture, Food, and Fisheries

INTRODUCTION

Zambia has high agricultural potential, which has not yet been fully exploited. Available data indicates that the country is only using 14% of the total arable land in terms of crop production. Therefore there is a lot of undureutilized potential regarding exploitation of arable land.

In an effort to address this underutilized potential of the agricultural sector, the government has embarked on a reform programme which incorporates a revision of policies and restructuring of the Ministry of Agriculture, Food and Fisheries. This reform exercise has been emphasised through ASIP.

ASIP is an integral part of economic reforms designed to enhance private sector participation through:

- Free market development;
- Reduction of government role in commercial activity;
- Enhancement of the transformation to overall external viability; and
- Improvement and strengthening the sector's delivery system.

ASIP was designed to put in place a framework within which measures can be implemented in order to improve the performance of the agriculture sector.

The thrust of ASIP is to

- Increase incomes from agriculture;
- Increase employment creation;
- Increase production of agricultural raw materials for the industry
- Increase foreign exchange earnings through the promotion of non traditional high value export crops;
- Improve household food security;
- Maintenance and the improvement of the existing agricultural resource base (air, water and soils)

Government through ASIP has put in place various strategies for meeting its policy objectives, some of which are as follows:

CROP DIVERSIFICATION STRATEGY.

The pursuance of the crop diversification strategy comes in the light of the dangers of mono cropping. Diversification was also promoted to encourage or exploit the comparative advantage the country enjoys in agriculture. Government has therefore, embarked on a crop diversification programme involving the promotion of multi-cropping of food crops and cash crops as well as the introduction of on-farm seed multiplication programmes for the various crops. Some of the crops supported under this strategy are cassava, sorghum, groundnuts, sweet potatoes and cowpeas.

A. OUTGROWER SCHEMES

After the demise of traditional credit institutions such as Lima Bank, Zambia cooperative federation finance services (ZCF-FS) and the cooperative bank, out grower schemes have become quite prominent.

Outgrower schemes have proved quite effective in terms of produce marketing, inputs accessibility and loan recoveries. Outgrower schemes once common only to cotton growing have now expanded in coverage to include other crops like soya beans, green beans, sunflower, spices, paprika and even maize.

Under the outgrower schemes, contractors provide inputs and in most cases technical know-how for production of certain commodities. It is estimated that contract farming may cover as much as 40 percent of small holder farmers in the coming years. This is a much bigger coverage compared to around 11 percent that were receiving credit in the 1990s.

THE AGRICULTURAL SECTOR INVESTMENT PROGRAM (ASIP)

Coming back to ASIP, I would like to mention that the program was launched in 1996.
ASIP, now fully operational, is aimed at harmonising investments in the agricultural sector in order to optimise the use of resources. ASIP has four main components which include:

- Policy and institutional reforms;
- Support to private sector development;
- Rehabilitation and strengthening of public sector agricultural services and;
- The rural investment fund (RIF)

These components are being executed through the different sub-programmes, which are interrelated and mutually reinforcing. ASIP has also contributed to building institutions for the promotion of production.

THE RIF

The RIF has proved very critical to the improvement of infrastructure in the agricultural sector. The main objective of the RIF is building the productive capacity of smallholder farmers who for various socio-economic reasons are unable to participate in economic activities in an effective manner.

The fund has been and still continues to provide grants to smallholder farmer groups on matching grant basis for infrastructure development such as rehabilitation and construction of roads, bridges, dams canals, irrigation furrows systems, fish ponds, storage facilities, boreholes/wells, and the building of dip tanks, to mention but a few.

The RIF facilities have increased the capital owned by the small-scale farmer in terms of new infrastructure. In addition, the various types of infrastructure have contributed to the welfare of the, otherwise, resource poor farmers.

The RIF has also done the following

- Improved accessibility of small-scale farmers by providing good feeder roads, bridges and canals;
- Improved trading facilities by putting up storage and marketing sheds;
- Improved disease control through availability of dip tanks and other medicines.
- Improved fish production through stocking of dams and other water bodies
- Easy access to safer drinking water through the provision of bore-holes and concrete wells;

I would like to talk about Cooperative Development, which if properly organized could prove, critical for both and input and output marketing.

COOPERATIVE DEVELOPMENT

Experience has shown that the involvement of the people at the grassroots level through organized groups is the best approach in ensuring that development is enhanced in rural areas.

The enactment of the Cooperative Societies Act. No 20 of 1998 and the liberalization of the economy has stimulated the development of a strong and independent cooperative movement in the country. Cooperatives organize, establish, and manage their own affairs based on the internationally approved cooperative principles and general business practices.

The government's role, under the 1998 Act, is only to facilitate and encourage the development of cooperatives through the provision of technical services. Plans are underway to establish a section within the ministry to be charged with the responsibility of providing such technical services and ensuring that the provisions of the act are properly understood and adhered to.

At present, a total of eight thousand and five hundred (8,500) new cooperative societies have so far been registered and once the structure for cooperative development has been established, capacity building at primary level of the cooperative movement will be initiated.

The other critical institution government has put in place to promote input and output marketing is the food reserve agency (FRA)

THE FOOD RESERVE AGENCY (FRA) AND PRIVATE SECTOR INVOLVEMENT IN INPUT SUPPLY

The Food Reserve Agency was created to hold strategic food reserves for the country. The strategic reserves were to be released as per need. Lately, however, the FRA, has also taken the responsibility of distributing inputs especially fertilisers as a way of improving the productivity of the small-scale farmers. The Food Reserve Agency is working very closely with the cooperative movement in making sure that more rural farmers access inputs. What will be critical, however, for the cooperative movement, is to make sure that the produce coming from the rural areas reaches the market, especially export markets.

ZAMBIA'S COMPARATIVE ADVANTAGE IN THE REGION

One of the strong points Zambia has is the abundant land resources. Zambia has cultivable land of 42 million hectares of which only 14 percent is cropped. Apart from ample land, Zambia has water bodies such as lakes and rivers that are not yet exploited for irrigation. Only 6 percent of Zambia's irrigation potential is currently being exploited. In addition Zambia's favorable soils and rainfall conditions, its proximity to regional markets and its relatively low labor costs further give Zambia an added advantage. The country is further endowed with abundant forestry resources which are yet to be exploited fully for export markets

THE PREPAREDNESS OF THE NONTRADITIONAL SECTOR IN TRADE

One of the agricultural sector objectives is to significantly expand the sector's contribution to the national balance of payments. Progress in this regard has been noticeable in the nontraditional sector where agricultural exports have risen from us$19.3 million in 1988 to US$43.04 million in 1995. The figure has increased to over US$100 million in recent years. This increase in exports has been noticeable in floriculture and in the horticulture sector involving fresh cut flowers, fruits and vegetables. The progression of Zambian growers in this sector is attributable to a number of donor aided programmes like the export development programme credit which facilitated the procurement of inputs and small capital items. The export development programme also provided technical and marketing assistance.

All in all, the Free Trade Area will provide expanded market opportunities for Zambia. The challenge to the Zambian Agricultural Industry will, however, lie in the production of high quality products which will meet the high standards obtaining within the region.

APPENDIX 3. LIST OF PARTICIPANTS

LIST OF PARTICIPANTS

PARTICIPANT	ORGANIZATION
1. J.E.O. Mwencha	COMESA (Secretary General)
2. Moses Banda	Ministry of Commerce, Trade and Industry (Permanent Secretary
3. A.K. Banda	MAFF (Director of Planning and Cooperatives)
4. D.G. Sinyangwe	Ministry of Agriculture, Food and Fisheries (MAFF)
5. C.L Chanthunya	COMESA (Director of Trade)
6. L.C. Mbewe	ZEGA (Managing Director)
7. Namukolo Mukutu	Agricultural Consultative Forum (Chairman)
8. Irene Bwalya Muloshi Tembo	Ministry of Commerce Trade and Industry (Director of Trade)
9. Mubanga Mushimba	MAFF
10. Helen Gunther	USAID
11. Likando Mukumbuta	USAID
12. Cris Muyunda	USAID
13. Kitiabi Regina M.K	USAID/REDSO/ESA
14. Matilda Chibale	USAID
15. Songowayo Zyambo	Zambia National Farmers' Union
16. A Mwila	Zambia National Farmers' Union
17. Nebwe Bobi K	Agricultural Consultative Forum
18. Mukupa Mausala	Agricultural Consultative Forum
19. Chibembe Nyalugwe	Zambia Enterprise Network
20. G.B. Ikona	Zambia National farmers' Union
21. K Veistralen	FAO
22. Pamela S.C. Pio	Embassy of Sweden
23. Jorsten Andersson	Embassy of Sweden
24. J Nyangu	ZAMSEED Ltd
25. Stephen Muliokela	Golden Valley Research Trust (GART)
26. Patrick Chibbamulilo	UNZA, Agric. Economics Dept.
27. Inyambo Mwanawina	UNZA
28. M Wamulume	Institute of Eco. And Social Research (INESOR)
29. Helen Samatebele	PAM
30. Angela Chishimba	Zambia Daily Mail
31. Mackson Wasamunu	The Post
32. Innocent Chimba	Zambia News Agency
33. Chidza Mazunda	Monitor
34. Joseph Banda	Information Dispatch
35. Tonny Mumba	Africa Today Magazine
36. John N Chola	Financial mail/Daily Mail
37. Violet Zilile	Zambia Information Services
38. Chilufya Sampa	Times of Zambia
Resourse Persons	
39. Professor O. S. Saasa	INESOR (Director)
40. Dr. Faustine Mwape	School of Agric. Sciences, UNZA (Dean)
41. Dr. Dennis Chiwele	Ruralnet (Managing Director)
42. Ms. Virginia Sishwashwa	Premier Consult (Secretarial Support)